

## **Wu Xiaoling: An innovative and inspiring experience - micro credit supported poverty reduction and women's development in China**

Special address by Ms Wu Xiaoling, Deputy Governor of the People's Bank of China, at the Citigroup-INSEAD Women's Financial Education Summit 2004, Hong Kong, 2 November 2004.

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Ladies and Gentlemen:

It is indeed a great pleasure to be invited to speak on this important Forum on Women's Financial Education. In China, women are lauded as can hold "half of the sky" and thus are deemed an important force in fostering China's economic growth. A proverb also says, "a good wife is a great protection against misfortune for the husband". Put in other words in today's environment of market economy, it means men would become more sensible in risk taking if their wives and daughters possess good command of financial knowledge, because they could benefit from the 'half sky's' good investment advice. If so, financial risks will become more controllable and efficiency of resource allocation will be much improved, resulting in a strengthened rather than a weakened social stability.

Keeping in mind that the Chinese women can hold half of the sky, the All China Women's Federation has introduced micro credit supported poverty reduction projects to assist women in the poor areas. In 1989, taking advantage of a grant of US\$ 70,000 by the UN Children's Fund and the government's financial support for poverty reduction totaling RMB 135,000 yuan, the Women's Federation in Luliang region of Shanxi Province introduced micro credit scheme to support household-based production activities of poor women. This project was later proved to be quite successful. Based on this successful experience, the All China Women's Federation started in 1994 to expand this project nationwide. For the time being, with the help of relevant government departments, micro credit support has been provided to benefit poor women in the rural areas in 28 provinces (regions). In recent years, on the basis of the model in applying micro credit to reduce poverty in the rural areas, the Women's Federation at various levels has further advanced the micro credit scheme to assist business start-up and re-employment of women in the urban areas. Now, micro credit support has been introduced to assist poor women in the cities in 24 provinces (municipalities).

The Women's Federation enjoys a unique advantageous position to involve itself in the micro credit scheme as it is basically a grass-root organization closely connected to women and households. So far, the scheme has been running quite successful as evidenced by the wide access of the poor households to the credit support (98 percent of the credit funds was used to help the poor families), the high success ratio of projects (over 90 percent of micro credit recipients benefited from the support) and high ratio of loan recovery (nearly 95 percent of the loans were recovered except for situations when natural disasters or catastrophic accidents fall).

Micro credit directly provides funds for the poor and employed women to start up production activities, thus creating a favorable condition for them to shake off poverty through reemployment and engagement in new business. Micro credit scheme has also transformed the perceptions of the poor and employed women about jobs and contributed to their improved understanding of self-development based on dignified living. Micro credit has generated technical services and training opportunities for the poor women to increase their production knowledge and skills, strengthen their perceptions about commodity economy and market competition, resulting in their broadened horizon and improved adaptability to the changing environment. Apart from the above-mentioned economic gains, micro credit has also benefited women on the political front. It has improved reliance of women in the rural areas on local political organizations which have helped awaken their sense of involvement in the course of economic construction and self-rule by the villagers. So far, 4860 women's economic cooperatives have been established in the poor areas in Shanxi Province with the support of micro credit scheme, and a large number of capable women have been elected into the "two committees" in the rural areas (the villagers' committee and the local party committee), promoting development of political civilization in rural China. In today's situation when massive men and women aged young are floating out from the rural areas to the cities, it is of profound significance to strengthen micro credit support for those women remaining in the fields.

In Mainland China, apart from the micro credit support under the initiatives of the Women's Federation, the government has also applied relevant international experiences to help reduce poverty. For example, in 1993, the Chinese Academy of Social Sciences started to introduce micro credit schemes

on a pilot basis in certain poor areas in China by referring to the experiences of Bangladesh in poverty reduction. So far, micro credit business has already conquered the following three stages of development in Mainland China.

First, business launching on pilot basis (from early 1994 to October 1996). At this stage, micro credit business was mainly funded with financial sources such as international donations and soft loans, with little involvement of government financial support. Efforts were focused on the feasibility of introducing into China the micro credit scheme developed by Bangladesh under the initiative of 'village banking' in Mainland China. And all the micro credit business was conducted by the semi-government or private institutions.

Second, business expansion (from October 1996 to 2000). While continuing to benefit from the international financial assistance, the Chinese government stepped in to provide financial support with fiscal funds and poverty-reduction interest subsidy loans to strengthen policy-based micro credit business operated jointly by government bodies and financial institutions (the Agricultural Bank of China), aimed at realizing the targets set for poverty reduction by the year of 2000.

Third, institution building and full engagement of rural financial institutions (from 2000 till now). Promoted by the People's Bank of China, rural credit cooperatives (RCCs), as the formal financial institutions, fully launched and explained micro credit business. In this period, based on the initiative of 'building credit households and villages', micro credit was extensively granted to farmers by the RCCs with financial support of the central bank. Starting from 2002, on the basis of the RCCs experience in the rural areas, the Chinese government has introduced micro credit scheme to support the reemployment and business start-up of the laid-off workers in the state-owned enterprises.

Micro credit scheme designed to promote poverty reduction and development is an effective way to widen access of the small and medium-sized enterprises farmers to credit in China. It also contributes effectively to the growth of labor-intensive enterprises and employment. Under the steering of the State Council, the People's Bank of China will coordinate closely with other relevant departments to further develop micro credit business.

**I. Skills training will be strengthened for vulnerable groups so as to enable them make more effective use of micro loans.**

Micro loans may not prove effective for people without production skills and entrepreneurial knowledge, and sometimes could even turn to be a disadvantage by plunging them into deep debt. We have come across such cases in our survey conducted in poverty-stricken areas. The local government extended poverty reduction loans to a farmer and helped him buy dozens of goats of improved breeds. However, due to the lack of breeding skills, the goats finally all died and the farmer was hence burdened by a debt of RMB 7,000 yuan, which aggravated his poverty. Therefore, the Chinese government nowadays very much emphasizes on reducing poverty supported by technology, and efforts have been made to help farmers locate good investment projects and learn skills before the extension of loans. In this regard, the experience in granting micro credit to promote extensive application of the greenhouse techniques in agricultural production and the development of the agricultural industry based on the production structure called 'leading enterprises plus farmers' has been quite rewarding. In 2004, the People's Bank of China launched a micro credit scheme named 'skills training plus self-employment loan' jointly with the Ministry of Labor and Social Security in more than 100 cities where laid-off workers are concentrated, so as to provide credit support on the basis of enhanced quality of the workers.

**II. Financial knowledge will be promoted across the whole society to foster the development of credit culture and the building of credit community so as to create a favorable environment for the extension of micro credit.**

Low-income people often find themselves trapped in illegal financial activities and hence suffer great loss of their hard-earned income due to the lack of financial knowledge. And for the same reason, they don't know how to approach the financial institutions and how to benefit from the financial services offered. They often fail to secure loans from the financial institutions due to lack of credit record and proper collateral or guarantee. To solve these problems, starting from 2000, the People's Bank of China has instructed the RCCs to promote credit households and credit villages in the rural area and the concept of integrity and creditworthiness among the farmers, aimed at creating favorable

conditions for micro credit extension. This experience will be introduced in the cities this year, with credit communities to be fostered jointly by the People's Bank of China and the Ministry of Labor and Social Security to publicize financial knowledge and policies related to the extension of re-employment micro credit, in the hope that more low-income people could benefit from the micro credit support to grow business and improve living standard.

### **III. Favorable conditions will be created for the sustainable development of micro credit business, including giving a full play to the role of fiscal leverage in the course of loan extension.**

Based on international experiences over the past twenty years, pricing loans appropriately to cover the underlining risks is the precondition for the sustainable development of micro credit business. People used to have a misperception about the loans issued to targeted low-income groups, i.e. they should only bear low interest rates, which has produced negative consequences in Mainland China. First, many borrowers take the interest-rate subsidized loans merely as relief funds, which they don't bother to repay. Second, loan coverage has been restricted by the government's inability to grant subsidies indefinitely. Third, loan risks are not fully covered, resulting in weakened financial viability and incentives of the financial institutions in extending micro credit. In fact, for the low-income people, when facing a business opportunity, they tend to care more about the access to credit rather than the cost of borrowing. If their loan request is denied by the regular channels, they may have to pay a much higher price to finance from the underbanking sources. Therefore, encouraging regular financial institutions to provide micro credit and charge interest rates adequately to cover the risks is a good way to help the low-income people. In cases that people in extreme poverty cannot afford the interest rates, the government may subsidize them directly. Separating fiscal support from credit support will be conducive to creating a sound credit environment. Moreover, in order to support low-income groups in the society, the government should cut profit-seeking investment and instead increase public spending, develop infrastructure facilities and improve education in the rural areas, protect natural environment and raise the effectiveness of loan projects. Besides, the government should also establish guarantee fund to disperse risks loaded on financial institutions, encouraging them to increase micro credit extension to support the vulnerable groups in the society. Direct fiscal subsidy and guarantee fund could serve as an important leverage in fostering the growth of micro credit business.

### **IV. Financial innovations and suitable supervisory approaches will be explored to produce a favorable external environment for the sustainable development of micro credit business.**

1. Efforts should be made to explore and formulate relevant rules, regulations as well as supervisory approaches to guide and support the growth of pilot-based micro credit business so as to promote the healthy development of micro credit scheme and make it integral part of the broad framework of China's financial reform.
2. Different policies need to be applied to the existing micro credit institutions, taking into consideration of each specific situation. Those qualified institutions that survive the adjustment or reconstructing should be allowed to stay in the market and continue to receive financial support. In the meantime, more market-based financial institutions specializing in micro credit business should be cultivated.
3. Competition should be introduced among the micro credit institutions to enhance their business performance. Government intervention will be reduced and the micro credit institutions will be granted more independence in loan extension so as to guide a market-based development of the micro credit business.
4. Training will be intensified for both the managers and working staff involved in micro credit business to enhance their effective technical support to the loan projects. Meanwhile, efforts will be made on a continuous basis to foster a sound credit environment.

With only a short history of successful development, micro credit business remains in its infant stage in the global sense, facing risks and challenges of various kinds. However, in our opinion, the introduction of micro credit scheme marks a revolutionary transformation of China's poverty reduction policy from relying on relief support to that focusing on development and serves as an important way

to aid the vulnerable groups in their strive to achieve prosperity. Micro credit scheme has inspired the whole society to be involved in the effort of poverty reduction and is warmly received by the vulnerable groups as well. Therefore, I am confident of the success of micro credit business in China as it enjoys both solid policy support from the government and wide participation by the society.

We firmly believe that micro credit business will have a promising prospect in China, and will continue to develop in a rapid and healthy way.

We are also looking forward to more participation by the private sector in foreign countries and the multilateral institutions in China's efforts to reduce poverty, by helping us improve the organization and management of micro credit and explore useful experiences to promote its sustainable development, thus making valuable contributions to poverty reduction in China and in the world.

Thank you!